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COMMITTEE ON ARMED SERVICES

U.S. House of Representatives

Washington, DC 20515-6035

ONE HUNDRED FOURTEENTH CONGRESS

February 27, 2015

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The Honorable Tom Price, M.D.
Chairman, Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974, and clause 4(f) of rule X of the Rules of the House of Representatives, we are forwarding to you the views of the Committee on Armed Services regarding the National Defense Budget Function (050) for fiscal year 2016 (FY16). In light of the threats facing the nation, as well as the resource shortfall facing the military discussed in greater detail below, the committee recommends a restoration to the pre-sequestration BCA caps of \$577.0 billion for national defense and \$50.9 billion in the Overseas Contingency Operations account. If this is not feasible in the first year, the committee recommends, at a minimum, last year's House-passed Budget Resolution level of \$566.0 billion for national defense in the base budget for FY16 with restoration to pre-sequestration level funding in FY17 and out.

Strategic Overview

We understand the challenges facing your committee and appreciate you and your staff's open communication with us as you work to meet those challenges. We share the concern that unrestrained spending jeopardizes our nation's future and agree that a balanced budget is needed. We are also grateful for the past work of your committee that recognized the priority of national defense while achieving a balanced budget.

We believe that providing for the nation's defense is the first job of the federal government. The Constitution gives Congress the responsibility to "raise and support Armies" and "provide and maintain a Navy" among other national security duties. While other programs are important for the welfare of the country, they must not be allowed to jeopardize the basic obligation to protect the safety and security of the American people and our vital interests around the world.

Meeting the security needs of the country is more difficult now than at any time since World War II -- and perhaps ever. We confront a wide array of serious, complex threats which are growing more dangerous because of doubts about the United States security posture. Some of those doubts are the result of the decisions of the current Administration. But some of them are also tied to the lack of adequate funding for our military.

Sophisticated competitors, such as Russia and China, have dramatically increased their defense spending in recent years, leading to belligerent behavior in Ukraine, Eastern Europe, the South China Sea and East China Sea. Threats from Iran, including its nuclear and missile programs and its support for terrorism through its Quds Force and proxies, continue to create instability and insecurity among our partners in the region. Similarly, North Korea's nuclear and ballistic missile programs continue to threaten the region and the U.S. homeland. The dangers posed by extremist jihadists are growing in strength and geographic reach while they shock the world with their brutality. At the same time, we must prepare for new domains of warfare, such as cyber and in outer space where several countries are developing capabilities that could cripple our military and our economy. Meanwhile, our military is called upon to stop diseases, such as Ebola, and to maintain a stabilizing presence that is essential to a rules-based international order.

While some may prefer for the United States to cede its global leadership and for others to shoulder greater responsibility, it is a cold, hard fact that no other country can take the place of the United States on the world stage. Our allies are unable to unilaterally act in their own self-interest, let alone the interests of the U.S., without substantial support from our military. Moreover, even in those instances where our allies might be capable of taking action that is consistent with our interests, such as in the fight to counter the Islamic State of Iraq and the Levant (ISIL), they only act if they believe that the United States is able and willing to stand by them. Unfortunately, other actors on the international stage see this as a time to take advantage of doubts about the United States. The result is a more dangerous world.

It may seem ironic, but is still true, that reducing our military spending in the hopes of improving our financial situation may well bring about more instability in the world – economic and otherwise – that damages our economy and undermines the American way of life.

Budget Overview

The President's FY16 budget requests \$561.0 billion in discretionary budget authority for national defense. Of this total, \$534.3 billion is for the Department of Defense (DOD), \$19.1 billion is for the Department of Energy's defense activities, and \$7.6 billion is for other defense-related activities. The President's budget also includes \$9.0 billion in mandatory budget authority. The budget submission does not comply with the limitations mandated by the Budget Control Act of 2011 (BCA) for funding levels in FY16 and across all budgeted fiscal years.

In addition to the base budget request, as required by Section 1008 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364), the President's budget for FY16 includes a separate request of \$50.9 billion, presented again this fiscal year as Overseas Contingency Operations (OCO), for war-related expenditures in support of ongoing

military operations in Afghanistan, military operations against ISIL, forward presence in other critical areas, and the resetting of equipment.

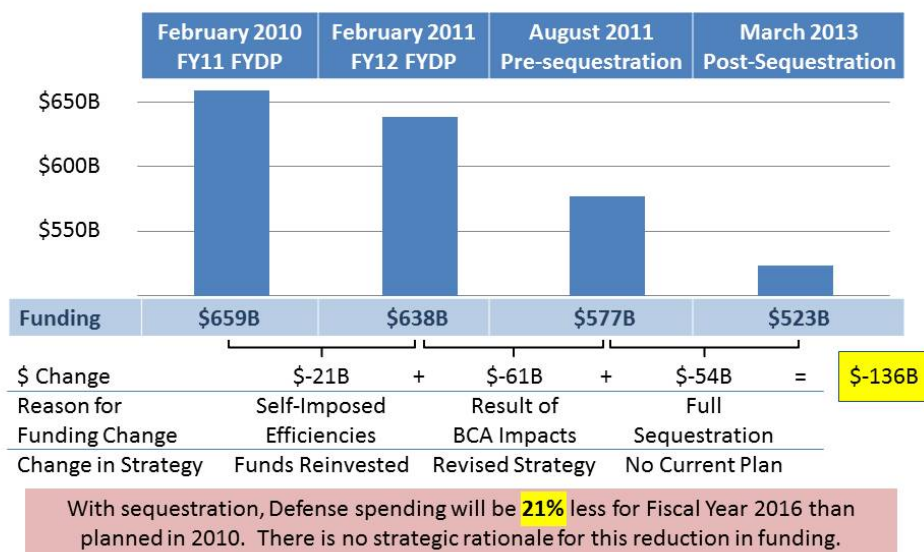
The Department of Defense's (DOD) \$534.3 billion base budget for FY16 "reflects the Department's attempt to fashion a coherent defense program with the proper balance between capacity, capability, and current and future readiness."¹ In the aggregate, the Department's budget submission for FY16 is \$38.2 billion above both the FY15 appropriation and budget request.

The House anticipated last year that requirements for FY16 would exceed those for FY15. In fact, the House-passed Budget Resolution last year increased national defense spending to \$566.0 billion in FY16, still \$11.0 billion below the pre-sequester BCA caps, and returned funding to pre-sequestration levels in FY17 and out. The House-passed Budget Resolution last year provided \$5.0 billion more for FY16 than the President's FY16 budget request.

Declining Defense Funding Over Time: Progression of Fiscal Year 2016 Funding Levels

Over the last five years, the level of funding requested and appropriated for national defense has declined. Under sequestration, national defense spending would decrease over 21 percent in fiscal year 2016, when compared with the level projected for fiscal year 2016 in the outyear budget documentation included in the first budget request prepared by President Obama's administration, submitted in February 2010.²

Timeline of the FY16 Funding Level National Defense (050) Base Funding



¹ United States Department of Defense Fiscal Year 2016 Budget Request Overview, February, 2015.

² In the table below, the acronym FYDP refers to the five-year, future years' defense program.

The committee continues to be concerned that resources are insufficient to fulfill the current defense strategy. Although the civilian and military leadership of the Department of Defense attempts to defend each successively lower budget request, their previous testimony directly contradicts the assertion that the current budget request would allow the military to fulfill the defense strategy at low to moderate risk.

Sequestration-Level Funding for Defense

Views of Senior Military Leaders

The committee has held over 20 oversight hearings with senior military leaders to solicit testimony on the implications of BCA-level funding for the United States' national security strategy. Their views have been strong and consistent. As recently as last month, all four service chiefs testified that the National Military Strategy could not be executed at sequestration levels. For the sake of brevity, testimony from two of the chiefs is included here, but all provided the same warning:

“[T]he vulnerabilities sequestration introduces into our force will encourage our adversaries, worry our allies, limit the number of concurrent operation we can conduct, and increase the risk to the men and women who fight America's next war.”³

“[U]nder the full effects of sequestration, we will have less capability and capacity to bring options to our National Command Authority, our elected leaders and the American people. When our Nation has options, we have strategic flexibility. When our options are limited, we create strategic risk...In the context of today's strategic landscape, sequestration will cause great harm to the security of our Nation.”⁴

The new Secretary of Defense, Ashton Carter, testified at his confirmation hearing earlier this month about the consequences to America's standing in the world should sequestration be implemented, “Sequester is risky to our defense, it introduces turbulence and uncertainty... and it conveys a misleadingly diminished picture of our power in the eyes of friends and foes alike.”⁵ And former Secretary of Defense Chuck Hagel discussed his position on funding defense at sequestration levels:

“The result would be a military that could not fulfill its defense strategy, putting at risk America's traditional role as a guarantor of global security and,

³ Testimony of General Mark A. Welsh III, Chief Of Staff Of The Air Force, before the Senate Armed Services Committee, “Impact of the Budget Control Act of 2011 and Sequestration on National Security,” January 28, 2015.

⁴ Testimony of General Joseph F. Dunford, Jr., Commandant Of The Marine Corps, before the Senate Armed Services Committee, “Impact of the Budget Control Act of 2011 and Sequestration on National Security,” January 28, 2015.

⁵ Opening Statement of The Honorable Ashton B. Carter to be Secretary of Defense, submitted to the Senate Armed Services Committee, February 4, 2015.

ultimately, our own security. This is not the military the President nor I want. It isn't the military that this committee or this Congress wants for America's future. But it is the path we are on unless Congress does something to change the law.”⁶

This statement occurred two weeks before the Russian annexation of Crimea, the emergence of ISIL, and the opening of a military front in eastern Ukraine.

Views of Independent Analysts

In an effort to ensure the committee receives balanced perspectives on the impacts of sequestration-level funding, the committee has sought views from many outside experts, separate and apart from those of currently serving defense officials. Most recently, the committee received the findings of the National Defense Panel (NDP) and four independent think-tanks.

The NDP was established by Congress to conduct an independent assessment of the Department of Defense Quadrennial Defense Review (QDR). The NDP was specifically charged with conducting an assessment of the assumptions, strategy, findings, and risks described in the 2014 QDR as well as assessing a variety of possible force structures—including the force structure contained in the 2014 QDR—and resource requirements to meet those force structures.⁷

The Panel concluded that the BCA – on top of previous cuts to defense dating back to 2009 – “constitute[s] a serious strategic misstep,” and must be reversed. These cuts have resulted in nearly a \$1 trillion cut over ten year from projected defense budgets. The Panel warns these massive cuts will “lead to a high risk force in the near future.” They have “caused significant shortfalls in U.S. military readiness and both present and future capabilities,” and have prompted allies and adversaries alike “to question our commitment and resolve.”⁸ The Panel concluded that the current and planned Joint Force will lack the size, agility, and technical superiority to meet the operational challenges the future security environment will produce.

The Panel unanimously recommended that Congress and the President repeal the BCA immediately and return as soon as possible to—at a minimum—the funding baseline in the fiscal year 2012 defense budget, which requested \$638 billion for national defense for fiscal year 2016. The FY12 budget “represents the last time the Department was permitted to engage in the standard process of analyzing threats, estimating needs and proposing a resource baseline that would permit it to carry out the national military strategy.”⁹

⁶ The Honorable Chuck Hagel, Secretary of Defense, before the House Armed Services Committee, “The Fiscal Year 2015 National Defense Authorization Budget Request from the Department of Defense,” March 6, 2014.

⁷ NDP panel members were: Dr. William Perry, General John P. Abizaid (Ret.), General James Cartwright (Ret.), Ambassador Eric Edelman, Former Undersecretary of Defense Michele Flournoy, Lieutenant General Frank Kearney (Ret.), Lieutenant General Michael Maples (Ret.), Former Congressman Jim Marshall, General Gregory Martin (Ret.), and Former Senator James Talent

⁸ The National Defense Panel, “Ensuring a Strong U.S. Defense for the Future,” July 2014, pg. 1-9.

⁹ The National Defense Panel, “Ensuring a Strong U.S. Defense for the Future,” July 2014, pg. 5.

In addition, this month the committee hosted outside think tanks¹⁰ to present their views on the implications of sequestration on the national defense strategy. This hearing provided members with a further understanding of the hard choices that lie ahead under sequestration-level funding. When asked about the implications of continued sequester-level funding, the witnesses' comments were universally consistent with the following:

“[T]he BCA budget caps were set without regard for need. They were set to reach a predetermined deficit reduction target. The BCA was intended as a forcing function, not as a means of governing. So I would say, with all due respect, Congress should do its job and govern, and reconsider those caps, and spend what is necessary for defense, not an arbitrary level.”¹¹

“I would say...our forces...are really remarkably less ready. So it is not just a question of how capable they are, how many of them there are, but how many of them are prepared to go into harm's way on short notice...so if you ask, ‘How many units can we send to respond to a crisis who have all their gear, well-trained, all their people, and are ready to go,’ that is a small slice of a shrinking pie...with aging equipment, et cetera, et cetera...I think that is the sort of metrics that really frighten me much more either than capacity or capability.”¹²

Former committee Chairman Howard P. “Buck” McKeon directed his staff to conduct a full analysis on the impact of sequestration back in 2011¹³. The assessment provided a potential roadmap on the implications that lower funding levels would have on the Department. When witnesses were asked if this assessment was too conservative or too aggressive, the response was, “I think we are getting there even faster than some would have guessed at that time.”¹⁴

Current Security Environment

As previously discussed, it is clear that we are facing the most complex and challenging security environment since World War II. As senior U.S. statesman Dr. Henry Kissinger recently testified, “The United States has not faced a more diverse and complex array of crises since the end of the Second World War.”¹⁵ The current Chief of Staff of the Army similarly

¹⁰ The American Enterprise Institute (AEI), Center for a New American Security (CNAS), Center for Strategic and Budgetary Assessments (CSBA), and Center for Strategic and International Studies (CSIS).

¹¹ Oral Testimony of Mr. Todd Harrison, representing the Center for Strategic and Budgetary Assessments (CSBA), before the House Armed Services Committee, “The FY16 Budget Request: A View from Outside Experts: Alternative Budgets and Strategic Choices,” February 11, 2015.

¹² Oral Testimony of Mr. Thomas Donnelly, representing the American Enterprise Institute (AEI), before the House Armed Services Committee, “The FY16 Budget Request: A View from Outside Experts: Alternative Budgets and Strategic Choices,” February 11, 2015.

¹³ http://armedservices.house.gov/index.cfm/files/serve?File_id=51ADD703-1543-411D-A9AE-E09A51738EB2.

¹⁴ Oral Testimony of Mr. Ryan Crotty, representing the Center for Strategic and International Studies (CSIS), before the House Armed Services Committee, “The FY16 Budget Request: A View from Outside Experts: Alternative Budgets and Strategic Choices,” February 11, 2015.

¹⁵ Written testimony of Dr. Henry Kissinger before the Senate Armed Services Committee, “Global Challenges and the U.S. National Security Strategy,” January 29, 2015.

remarked, “In my 38 years of service, I have never seen a more dynamic and rapidly changing security environment than the one we face now. We no longer live in a world where we have the luxury of time and distance to respond to threats facing our Nation. Instead, we face a diverse range of threats operating across domains and along seams—threats that are rapidly changing and adapting in response to our posture.”¹⁶

In addition, the nation faces unprecedented technological challenges, with enemies and potential competitors working every day to exploit vulnerabilities in our capabilities. Their efforts focus on developing technologies to offset areas of American military strength. While much of the threat is classified, a senior defense official recently testified before our committee, “We are at risk, and the situation is getting worse... we came out of the Cold War with a very dominant military... people have had quite a bit of time to ... do things about how to defeat that force. And what I am seeing in foreign modernizations ... is a suite of capabilities that are intended clearly...to defeat the American way of doing power projection, American way of warfare...and, without saying too much about this, the Chinese, in particular-- and, again, to a lesser extent, the Russians-- are going beyond what we have done. They are making advances beyond what we currently have fielded.”¹⁷

The committee cannot overstate the magnitude, scope, and simultaneity of the threats currently facing our nation. It is truly unprecedented. While America has long relied on its military strength to deter aggression, reassure our allies, and exercise global influence to shape a world order aligned with our national interests, this strength is at risk. As the National Defense Panel observed, “Since World War II, no matter which party has controlled the White House or Congress, America’s global military capability and commitment has been the strategic foundation undergirding our global leadership.” Yet further cuts to defense from sequestration would jeopardize that capability and commitment.

Outyear Defense Budget Trend Concerns – The FY16 Problem Becomes Reality

The committee stated significant concerns regarding FY16 and future defense funding levels in its views regarding the National Defense Budget Function for fiscal year 2015 in March 2014. The committee observed that the trend of base defense spending has been essentially flat, which has caused a loss of buying power within the Department as inflationary influences take effect across multiple years. The committee urged following a path that would restore national defense to pre-sequestration levels for FY16 onward. We very much appreciated the House Budget Committee’s efforts to support that restoration last year.

Without a similar effort this year, our problems will be compounded because the military has absorbed the cuts since FY13 by degrading training and maintenance associated with combat readiness, utilizing unobligated balances, and deferring modernization. We have reached a point,

¹⁶ Testimony of General Raymond T. Odierno, Chief of Staff of the Army, before the Senate Armed Services Committee, “Impact of the Budget Control Act of 2011 and Sequestration on National Security,” January 28, 2015.

¹⁷ Oral Testimony of The Honorable Frank Kendall, Under Secretary of Defense for Acquisition, Technology and Logistics, before the House Armed Services Committee, “A Case for Reform: Improving DOD’s Ability to Respond to the Pace of Technological Change,” January 28, 2015.

however, when those methods can no longer be used to avoid the catastrophic consequences of sequestration-level funding.

Deferral of requirements since FY13 has created a bow-wave of costs that mean the military can no longer fund both prior-year and current-year requirements. Therefore, although sequestration-level funding for national defense will still yield nominal growth through FY21, the committee's conservative assessment is that the military will only be able to fund 83 percent of its current-year requirements as early as FY17. As a result, the military can no longer use the techniques it has used for the last three years to avoid the major impacts of sequestration-level funding. Even with projected increases at BCA levels, the military will no longer be able to support the current defense strategy, resulting in increased risk for loss of life and injury for military personnel and an increased risk to America's national security. Unfortunately, this will occur simultaneously with the growing threats to our security and the growing needs of our armed services to be prepared to meet those threats.

Mandatory and Discretionary Spending Trends

As discussed previously, the national security impacts of sequestration have unfortunately not been mitigated by a reduction in the debt or the cost to service the debt. The following chart displays the recent outlays for mandatory and defense discretionary spending, as well as the actual and estimated net interest payments required since FY 2000. The impact of sequestration would not significantly change the rate of growth in mandatory spending (including mandatory spending for national defense and veterans affairs), while net interest outlays continue to *grow*. In fact, our spending to service the debt is projected to be at the same levels as defense discretionary spending by 2021.

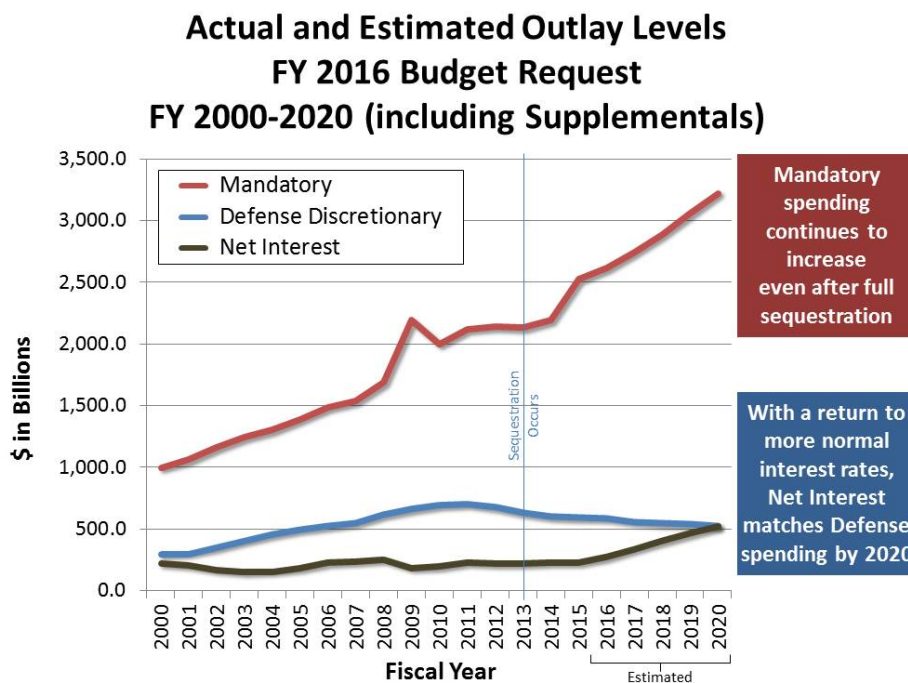


Table 8.1, Historical Tables, Budget of the U.S. Government, FY 2016, February 2015

Current Fiscal Oversight Initiatives

The committee believes that we have a duty to conduct stringent oversight of DOD spending and activities and to pursue reforms that improve the efficiency and effectiveness of our defense efforts. Reform is also needed to improve the military's agility and the speed at which it can adapt to respond to the unprecedented technological challenges we face. The Department of Defense has proposed a number of minor reforms and headquarters reductions that will marginally reduce its operating costs. However, we believe that deeper, more significant reforms are required. The Goldwater-Nichols Department of Defense Reorganization Act of 1986 made the largest changes to the United States military since the Department of Defense was established by the National Security Act of 1947. The committee has an opportunity to pick up where Goldwater-Nichols left off. Specifically, the committee's reform priorities include acquisition reform; pay, compensation, and retirement reform; healthcare reform; organizational reform, including civilian personnel; and regulatory relief. A sample of these efforts is provided below and you have my commitment to dedicate member and staff resources to focus exclusively on this subject. However, while efficiencies and reform are helpful in freeing up some funds to reinvest in defense, the savings take time to accumulate and they alone are insufficient to reverse the impacts of sequestration upon the Department of Defense.

DOD Acquisition Reform

There remains a vast difference between DOD budgets and the cost of the weapon systems they acquire. To keep weapon system programs alive, the Department continues to develop, and Congress continues to accept, fragile acquisition strategies that downplay technical issues and assume only successful outcomes to high risk efforts. As a result, the nation often ends up with too few weapons, delivered late, at too high of a cost, with performance that falls short, and that are difficult and costly to maintain.

In addition to challenges in weapon systems procurement, the committee notes that Department expenditures for contracted services have grown in magnitude and face many management and oversight challenges. The Department currently obligates more than half of its total contract obligations on contracted services. However, Pentagon leadership and Congress have limited insight into the services being acquired and even less awareness of the services that may need to be acquired in the future.

The committee's ongoing acquisition improvement efforts seek to enhance oversight in these areas and to improve processes via a different approach from previous efforts. The committee seeks to improve the environment (i.e., human resources, culture, statutes, regulations, and processes) driving acquisition choices in the Department, industry, and Congress. As part of this ongoing effort, the committee solicited input from industry, academia, and the Department, as well as others during the 113th Congress, and will introduce legislation based on these inputs in the coming months. The committee recognizes that there are no "silver bullets" to solve these problems and this effort will be an iterative process that will result in

direct oversight and will be embedded in the committee's regular work throughout the 114th Congress.

Information Technology Oversight

As the Information Technology (IT) budget represents nearly \$32 billion of the Department of Defense's total budget, it also represents a major investment area requiring the same rigorous planning, analysis, and oversight as any other complex major weapon system. The committee will continue to review the Department's IT investment planning and review processes, as well as specific acquisitions, to improve the ability to identify and reduce unwarranted duplication and eliminate programs of little value to the warfighter. The committee will pay particular attention to how the Department leverages the commercial marketplace, as well as the various IT systems of the Department where egregious programmatic failures have been made to provide lessons for future acquisitions.

Military Compensation and Retirement Modernization Commission

The National Defense Authorization Act for Fiscal Year 2013 (P.L. 112-239) established the Military Compensation and Retirement Modernization Commission to: (1) ensure the long-term viability of the All-Volunteer Force; (2) enable a high quality of life for military families; and (3) modernize and achieve fiscal sustainability of the compensation and retirement systems. The final report, with fifteen recommendations for changes and modernization of the compensation, benefits and retirement system, was presented to the President and the Congress on January 29, 2015. The Commission's final report and recommendations may be found [here](#).¹⁸

Not later than April 1, 2015, the President will transmit to the Commission and the Congress a report containing the approval or disapproval by the President of the recommendations. The committee intends to thoroughly assess each of the recommendations, as well as the Administration's views, and those of outside groups and put forward related reforms.

DOD Auditability and Financial Management

The Comptroller General of the United States has consistently identified the DOD's financial management as a high-risk area since 1995. The Department's inability to track and account for billions of dollars in funding and tangible assets continues to undermine its management approach. It also creates a lack of transparency that significantly limits congressional oversight. The Department's inability to produce auditable financial statements undermines its efforts to reform defense acquisition processes and to realize efficiencies. Without these objective tools, neither the Department nor Congress can verify that greater value is being created. As a result, it was this committee that mandated the Department implement the Financial Improvement and Audit Readiness (FIAR) plan in the National Defense Authorization Act of 2010 (Public Law 111-84). We will continue to conduct rigorous oversight of its progress as it moves to accomplish auditable financial statements by September 30, 2017. The committee

¹⁸ <http://mldc.whs.mil/public/docs/report/MCRMCM-FinalReport-29JAN15-HI.pdf>

The Honorable Tom Price, M.D.
February 27, 2015
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will monitor closely the interdependencies between the FIAR plan and the significant investments in business systems modernization programs that the Department has proposed to address its financial management problems.

Summary

The committee agrees with the views of General Martin Dempsey, USA, Chairman of the Joint Chiefs of Staff, that the President's budget request is at the lower ragged edge of our ability to execute the National Security Strategy, with moderate risk. At these funding levels, the degradation of hardware requirements is stemmed, but the replenishment of years of readiness shortfalls cannot be immediately recovered. As submitted, the Department admits that it will not be able to fully fight and meet the demands of the National Military Strategy until 2023.¹⁹ The threat of sequestration-level funding will continue to impact our national defense. We urge your continued support for adequate funding for national defense in fiscal year 2016 and beyond, preferably at pre-sequestration levels, but at a minimum level of what was previously voted upon in last year's House-passed Budget Resolution.

In closing, we appreciate the opportunity to express these views on behalf of the Committee on Armed Services and share this final observation by General James Mattis, former commander of U.S. Central Command, last month before the Senate Armed Services Committee:

"No foe in the field can wreak such havoc on our security that mindless sequestration is achieving."²⁰

I look forward to working with you and the members of the Committee on the Budget to construct a budget plan that reflects our commitment to meet emerging threats and secure our national defense.

Sincerely,



William M. "Mac" Thornberry
Chairman

cc: The Honorable Chris Van Hollen, Ranking Member, Committee on the Budget


WMT:jas


¹⁹ United States Department Of Defense Fiscal Year 2016 Budget Request Overview, February 2015, pg. 1-1

²⁰ Written testimony of General James Mattis, USMC (Ret.), before the Senate Armed Services Committee, "Global Challenges and U.S. National Security Strategy," January 27, 2015.


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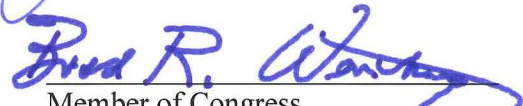

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